Manhattan Report

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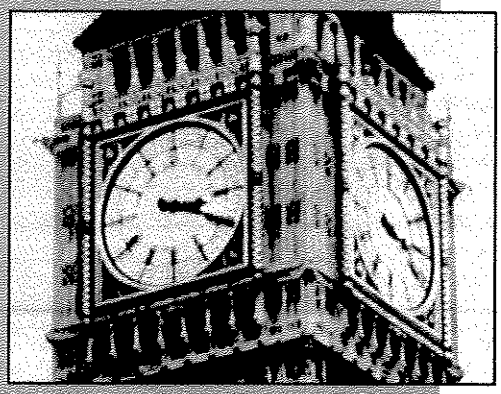

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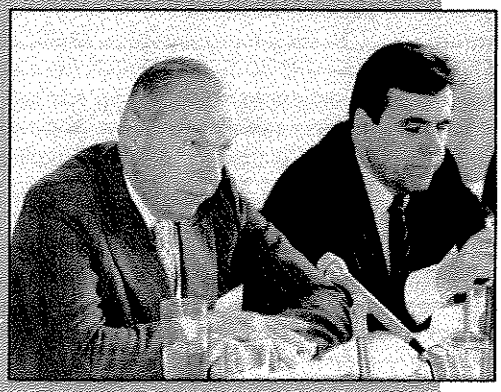

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NY Project Explores City, State Issues

Is New York doomed to remain a high-tax, low-growth state? And must New York City be content with its declining manufacturing base, problematic social services, and baroque web of restrictive economic regulations? Searching for solutions to these and other city and state problems is the objective of the Manhattan Institute's *Project on New York's Economic Future*, which was expanded dramatically during 1986.

As part of the project the Manhattan Institute has awarded research fellowships to several scholars, including Peter Salins, professor of urban affairs at Hunter College, for a book on housing and Columbia University Japan expert Herbert Passin for a book comparing delivery of services in New York City and Tokyo. Salins is also editing a collection of essays on solving New York City problems, to be released as *New York Unbound* next year.

Topics engaged by the project over the past year ranged from what to do with the projected tax "windfall," to the questions of how to cope with changes in New York City's economic landscape and how to fight municipal corruption, to the (successful) effort to break up the coercive milk distributors' cartel.

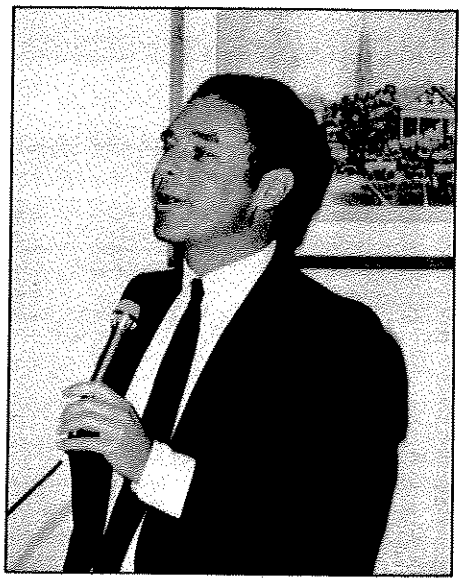
As lawmakers returned for the 1987 legislative session, a February 11 Albany conference, *The Tax Windfall and New York's Economic Future*, brought academics and policymakers together to discuss the state tax structure. Professors Richard Vedder of Ohio University, Bernard Weinstein of Southern Methodist University, and Frank Mauro of the State University of New York at Albany addressed an audience of more than 70, with U.S. Trust Company Senior Vice President James Bacon as moderator.

Discussion focused on how to promote economic growth and how to dovetail state tax reform with recent federal changes. Debate was sharp but the speakers agreed that New York faces a crucial period with the chance to implement tax policies to create major long-term benefits for the city and state economies. It was asserted that for better or worse, tax changes are on the horizon—the only question is which direction they will take: "New York's tax system can be a growth-inducing one or a growth-inhibiting one," said Vedder. Thus, the challenge is to implement policies which will make New York competitive with neighboring states.

Economic developments affecting New York City were analyzed at a May 1986 Manhattan Forum, *New York and the Politics of Growth*, which drew more than 100 guests. Former Citicorp Chairman Walter Wriston delivered opening remarks, followed by presentations by: Samuel Ehrenhalt, regional commissioner of labor statistics for the U.S. Department of Labor; Kenneth Lipper, former New York City Deputy Mayor for Economic Development; Kermit Morrissey, professor of public affairs at the University of Massachusetts; and William J. Stern, former chairman of the New York State Urban Development Corporation.

Jobs, housing, transportation, and their interactions dominated the discussion, with Ehrenhalt tracking the decline of the manufacturing sector and Lipper advocating retraining and housing programs for workers migrating to service industries. William Stern focused on the unique role of the 40 city public authorities in determining economic policy, while Kermit Morrissey urged state tax cuts patterned on those of Massachusetts.

A September 30 Forum at the Harvard Club on political corruption featured F.A.O. Schwarz, Jr., City Corporate Counsel; William Stern; *New York Times* editorial board member Roger Starr; and Frank Macchiarola, then-president of the New York City Partnership, as moderator. Among the systemic changes suggested were reforms in campaign finance and disclosure laws, along with revamping corruption-inducing regulatory systems. As Roger Starr noted, "bribery and corruption become almost inevitable" in the city environment of heavy regulation and extensive government involvement in business dealings.



Kenneth Lipper

Besides these activities, Manhattan Fellows and affiliated scholars have supplied a continuous stream of op-eds and policy papers, published in New York media as well as mailed to New York area Associates of the Manhattan Institute as part of the ongoing *New York Perspective* series of policy papers, nine of which appeared last year. □

Manhattan Report

The *Manhattan Report* is published by the Manhattan Institute for Policy Research, an independent, non-profit research organization which assists scholars, policymakers, and the general public in gaining a better understanding of economic issues and public policy.

The *Manhattan Report* is sent to Manhattan Institute Associates who contribute $25 or more to make possible the Institute's activities.

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Production Manager: Jessica Troop
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New York Report Launched

Established in 1983, the Manhattan Institute's *Project on New York's Economic Future* is an "outreach" venture intended to enhance awareness among New Yorkers of the important social and economic issues facing the city and state. As part of its effort to stimulate debate and call attention to fresh points of view, the project will begin publishing a newsletter, the *New York Report*.

The *New York Report* will focus on the broad issues destined to determine New York's future, ranging from housing policy to political reform, education, and a host of others. It will also offer a voice for New Yorkers unwilling to accept the status quo and dissatisfied with the current parameters of policy debate. □

Tax Cuts Urged At London Conference

Journalists from leading British media, Tory MPs, and an array of economists doodling on napkins gathered at the *London Conference on Taxes and Growth*, sponsored by the Manhattan Institute and London's Adam Smith Institute, at the St. James Court Hotel near Whitehall and Buckingham Palace on October 14, 1986. Featuring 11 American speakers, the conference drew a large and diverse audience to hear arguments for growth-oriented policies in the U.K.

The consensus among the American speakers at the conference was that the U.S. tax reform represents a policy "challenge" to other Western governments. Evidence that cutting taxes results in greater revenues was marshalled by economists Lawrence Lindsey of Harvard, Alan Reynolds of Polyconomics, Inc., Roger Waud of the University of North Carolina, and other analysts. The speakers united in a call for a fresh approach to tax and fiscal policy designed to spur Britain's lagging economy.

Richard Rahn, Stephen Entin and Bruce Bartlett

The "défi Americain"

The conference coincided with a heated debate among British analysts over how best to promote economic growth in the U.K. British economists and financial journalists are nervous about income-redistributionist policies widely expected to be introduced if Labour wins the coming election. However, they are unenthusiastic about Prime Minister Thatcher's traditional, "fiscalist" economic policies as well. Blame for current British economic stagnation increasingly falls on the Thatcher program; the conference was convened in the wake of a London *Sunday Times* editorial urging "fresh thinking" on the tax question—and not coincidentally, that newspaper's editor, Andrew Neil, served as one of the session chairmen.

As wide press coverage of the conference made clear, a number of influential Britons were intrigued by the policy suggestions made at the conference—suggestions which held out the hope of unravelling the British policy tangle through a shift to a new economics of international competitiveness. George Gilder of the Manhattan Institute, urging British officials to follow the U.S. lead, said: "Any country that does not respond to the new *'défi Americain,'* our 28 percent top marginal rate, will find itself losing its capital, its entrepreneurs, and its future in the global economy."

London Conference on Taxes and Growth

Speakers

Bruce Bartlett, *Fellow, The Heritage Foundation*
Tom Bethell, *Washington Editor,* The American Spectator
Warren Brookes, *columnist,* Detroit News
Stephen Entin, *Deputy Assistant Secretary for Economic Policy, U.S. Department of the Treasury*
George Gilder, *author,* Wealth and Poverty
James Gwartney, *Professor of Economics, Florida State University*
Lawrence Lindsey, *Harvard University and National Bureau of Economic Research*
Richard Rahn, *Chief Economist, U.S. Chamber of Commerce*
George von Furstenberg, *Professor of Economics, Indiana University*
Roger Waud, *University of North Carolina and National Bureau of Economic Research*

Session Chairmen

Eamonn Butler, *Adam Smith Institute*
David Howell, MP
Andrew Neil, *Editor, London* Sunday Times

Tax cut, revenue boost

The speakers' common theme of the "American challenge" was backed by data showing that U.S. tax receipts from income earners in the highest bracket increased after the 1981 reduction of the rate from 70 to 50 percent for incomes over $200,000. Lawrence Lindsey of Harvard, using a forecasting model of the National Bureau of Economic Research, calculated that 1982 receipts from taxpayers earning more than $200,000 would have been $25.95 billion if the tax cuts had not been enacted. The NBER model estimated post–tax cut revenues for 1982 would have been $22.44 billion—assuming no Laffer Curve effect (the phenomenon of lower rates providing incentives to earn and report more income). However, *actual*

1982 tax receipts were $26.62 billion from these over-$200,000 bracket taxpayers. Data from 1983 and 1984 showed the same trends.

Tax receipts in this top bracket (assuming no marginal-rate reductions) would have been $29 billion in 1983 and $34.1 billion in 1984; and applying anti-supply-side assumptions the NBER model yielded revenue estimates of $23.5 billion for 1983 (but $8.2 billion *more* in taxes actually was collected) and $27 billion for 1984 (when actual receipts were a startling $42.1 billion).

Lindsey cited these data in support of his argument: British policymakers can cut top marginal rates in the confidence that revenues collected from top-bracket taxpayers will rise—a strategy to expand the tax base which economist James Gwartney of Florida State University called a "supply-side soak-the-rich" approach. "The U.S. experience indicates that the British 60 percent top marginal rate is too high," he said.

Roger Waud of the University of North Carolina, while endorsing the policy approach, suggested that it be understood in different terms: "The rich are too clever to get soaked.... You have to do something which appeals to their incentives. Lower tax rates provide individuals with a greater incentive to work, save, and invest which in turn broadens the base of wealth that is taxed." Waud said that conventional economic models underestimate the effect of marginal-rate cuts in reducing tax evasion and avoidance, and thus "underestimate the revenue-raising potential of lower marginal rates."

The tax/growth connection

Complementing the thesis of Lindsey, Gwartney, Waud, and Tom Bethell of *The American Spectator* that marginal-rate cuts lead to increased tax revenues, George Gilder, columnist Warren Brookes, and Polyconomics's Alan Reynolds all argued that tax cuts in the upper-income bracket also spur economic growth. Reynolds pointed out that several European countries had already reduced marginal rates—but not enough: from 87 to 80 percent in Sweden and from 72 to 60 percent in Italy. Likewise, under the Thatcher regime the U.K. reduced its top rate from 83 to 60 percent but, said Reynolds, "having started out too high, you ended up too high." Reynolds cited evidence that these countries, while not going far enough, had been headed in the right direction: "Only Belgium swam against this tide by increasing its tax rate from 60 to 72 percent. Belgium, of course, has experienced an economic growth rate of zero for the past five years."

Reynolds also stressed the negative implications of high marginal rates for international trade. "The growth of world trade requires growth of imports," he said. "Who are the laggards here? It turns out that the countries with the highest tax rates have reduced their imports for several years.... Tax systems that suffocate domestic income and sales are not just an international problem, they hinder world trade as well."

> ***"The advocates of confiscatory taxation have had their way in Britain for two generations.... Surely the time is ripe for trying a different system."***
>
> —*Brian Walden, London* Sunday Times

Warren Brookes of the *Detroit News* cited the growth-inducing effects of tax cuts with reference to the Massachusetts experience. After the passage of Proposition 2½ in 1980 which slashed property taxes by 40 to 50 percent, the state economy vaulted out of stagnation to become the third-fastest growing state economy in the U.S. over the last three years. Said Brookes: "Even the *Boston Globe*, which opposed Proposition 2½, admitted in a lengthy article last June that the referendum's passage was largely responsible for turning the state's stalled economy around.... The *Globe* article admitted that 'the worst political problem for businesses considering relocation or expansion in the state was the perception of the state as Taxachusetts.'"

Innovate or stagnate

Brookes went on to point out that both the *Financial Times* and the London *Economist* had been "rather snide" about the tax-cutting efforts of U.S. states such as Massachusetts and California. However, he argued, "they can only dream of the kind of economic growth that is going on ... So long as the press peers down its nose at America's supply-side ideas, the U.K. will continue to stagnate."

George Gilder provided a counterpoint to the other speakers' economic arguments for supply-side tax cuts, describing the impact of new technologies on entrepreneurship—including the fact that new

David Howell MP, William Hammett and George Gilder

George Gilder, Tom Bethell, Andrew Neil, Alan Reynolds and Warren Brookes

information technology enables an entrepreneur to "spend much of his time in Britain but also enjoy the tax rates in America."

Gilder noted that 20 years ago, Jean-Jacques Servan-Schreiber in *The American Challenge* urged Europeans to ward off the American economic threat through statist industrial planning—just as a new phase of the technological revolution was beginning. According to Gilder, the maturation of a variety of technologies means that Servan-Schreiber's thesis is now totally obsolete; the "American challenge" has taken a very different form from that depicted in the Frenchman's forecast. Gilder described the emergence of artificial intelligence, silicon compiler, and parallel multiprocessing developments which promise to "strongly favor individual entrepreneurs over big governments and multinational corporations." And thus, any government which promulgates or retains tax policies hostile to entrepreneurs is making a mistake.

Interest piqued

This critique of the Thatcher government's economic thinking was met with strong endorsements from several newspapers and equally strong condemnation from others. The *Sunday Times*, whose editorial had sparked the idea for the conference, gave it heavy coverage and financial columnist Brian Walden caught the main theme of the American presentations: "The advocates of confiscatory taxation have had their way in Britain for two generations.... Surely the time is ripe for trying a different system."

The *Times*, along with the European *Wall Street Journal*, printed an adaptation of Gilder's conference remarks, and the *Journal* editorialized, "At some point, the evidence for the logic of the Laffer Curve is going to become overwhelming enough to move even the British debate. Sooner or later, the chancellor of the exchequer, whether he still be a Tory or whether Tory intransigence means he'll be from the Labor or another party, will stop talking about the 'cost' of tax cuts and start talking about the 'cost' of not cutting taxes. And the stunning and broad nature of these costs will be brought home when they are sketched to include the devastating impact high taxes have had on employment."

> ***"The Tories are afraid of what the reaction would be if they were to reduce the top rates. They are afraid of the outcry that Mrs. Thatcher is helping the rich. Essentially what we have is the appeasement of envy."***
>
> *—Tom Bethell*

No sign of changed minds was to be found at the *Financial Times*, however; that newspaper's Michael Prowse expressed his doubts in sarcastic tones: "As the Manhattan Institute argued last week [at the London Conference], the availability of [supply-side] Taxcuts means that Europe is now on the brink of a Golden Age. Cynics hide your head in shame." The *Guardian* (Christopher Huhne) and the *Independent* (Peter Kellner) were skeptical as well.

On the other hand, articles in the London *Spectator* and other journals showed that the level of interest in innovative tax policies has grown rapidly—a development the organizers of the London Conference hoped to promote. The true measure of the conference's success, of course, will be found in the role which tax rates play in debates over economic policy as the next election approaches. Mrs. Thatcher may yet decide to campaign on a platform of further cuts in the current top marginal rate. □

Manhattan Forums

Whether the U.S. should withdraw from NATO, problems at Yellowstone National Park, and the question of promoting "moral literacy" in public schools were among the subjects discussed at Manhattan Institute Forums during 1986 and early 1987. Seven Forums—featuring economist Donald McCloskey, Manhattan Institute Fellow Charles Murray, Israeli scholars Uriel Procaccia and Marshall Sarnat, Melvyn Krauss of New York University, U.S. Education Secretary William Bennett, environmentalist Alston Chase, and banker Walter Wriston—together drew more than 400 guests.

Transcripts of all the Forums are available on request (see page 15). Highlights of 1986/87 Forums:

The Economist and the Art of Persuasion
Donald N. McCloskey
Chairman, J. Richard Zecher
The Harvard Club—January 20, 1987

Donald N. McCloskey discussed his book *The Rhetoric of Economics* (University of Wisconsin Press, 1985) in a lunchtime discussion moderated by Chase Manhattan Bank Senior Vice President J. Richard Zecher. "Economics, we all agree, is a strikingly successful science," said McCloskey, but one of the worst features of the discipline, paradoxically, is the tendency of economists to write and speak like scientists. McCloskey, professor of economics and history at the University of Iowa, argued that "good science is good conversation," but the scientistic rhetoric and the statistical arcana which permeate economic literature are not good. Moreover, contemporary economists' emphasis on formalizing economic theory in mathematical terms hides the central truths of economics behind "a shower of mathematics and statistics."

McCloskey said that greater awareness among economists of the rhetorical components of their speech and writing might lead to an improvement of economic prose and, possibly, more cogent answers to real-life questions. But the chief benefit of economists taking their own arguments seriously *as arguments* would be to "help bring economics back into our larger civilization." Adam Smith, Marx, Schumpeter, and Keynes all paid close attention to the rhetorical element in their work and all were thus influential participants in the "conversation of mankind." If present-day economists would focus more attention on persuasiveness, he said, and less on the constricted version of the "scientific method" now popular, they too might wield such influence.

U.S. Secretary of Education William Bennett addresses Manhattan Forum

Welfare Policy In the Post-Reagan Era
Charles Murray
Chairman, Peter Salins
The Lotos Club—December 4, 1986

Manhattan Institute Bradley Fellow Charles Murray, whose 1984 book *Losing Ground* helped provoke the current debate on social welfare programs, outlined his views on intellectual and social trends which he thinks will most affect post-1988 policymaking. In a Forum moderated by Hunter College Urban Affairs Professor Peter Salins, Murray sketched three developments which may have profound significance in the areas of public values, scholarship on such controversial questions as IQ and family breakup, and race relations.

Murray's remarks came at a time when more pressure is being exerted to overhaul welfare policy, just as the shape that changes should take is becoming less certain. Several of the reforms now being considered—workfare, for example—have already been tried, he said—and have failed. Despite the paucity of concrete plans for improvement, major evolutions in public attitudes and shifts in intellectual emphasis among social scientists are occurring. These developments, said Murray, will shape future arguments in the social policy debate.

A radical shift in public values and attitudes towards marriage, fidelity, and sexual morality—all of which is intimately related to social policy—may result from the spread of AIDS, Murray said. What forms these changes will take are now unclear, but their eventual significance might be immense: "It is conceivable to me that in a few years we will see a sexual morality which will make Victorian England look like Woodstock." He argued that public attitudes affecting social norms will be an important variable in the public policy equation. Obviously, a sweeping renunciation of the permissiveness which has characterized our social policy since the Great Society would figure strongly in future efforts at change.

Murray called the re-emergence of "character" as a linchpin of social policy one of the most important intellectual developments in the welfare debate. As one example, Murray cited James Q.

Wilson's 1986 *Public Interest* article, "The Rediscovery of Character," which stressed the importance of character development as a policy goal. According to Murray, such arguments manifest attitudes which, though until very recently unpopular, have entered the mainstream of thought.

"Opening character as an issue opens other things as well," said Murray. Other examples of these new attitudes include an acceptance of the inevitability of inequality and a willingness to take seriously provocative work, formerly anathema, on topics such as IQ. The small shifts in opinion which have occurred so far may presage something bigger: "Changes in intellectual trends may lead to sudden, very quick reversals in what is 'fashionable.' Common wisdom, then, may collapse and be replaced with something else."

What Murray views as the most disturbing of these developments is the emergence of a sophisticated "new racism" whose impact on policy may be significantly greater than that of the resurgent "old racism" which news reports have publicized.

What is this new racism? Murray feels that racial bigotry, now much muted, has been supplanted by a form of condescension resulting in harmful stereotyping. He cited several developments which indicate growing complacency in intellectual circles toward rooted problems of race relations. He said that "laws and official attitudes will be maintained, but I fear there is a growing hypocrisy among whites which will be very corrosive." Concluding, Murray urged a more realistic attitude towards problems of race in social policy centering on critical examination of proposed reforms: "Whether anything happens after Ronald Reagan is replaced depends not only on who replaces him, but also on how quickly we get on with the process of debunking the latest round of solutions."

Uriel Procaccia, Marshall Sarnat and Daniel Doron

Reforming Israeli Financial Markets: Prospects and Problems
Uriel Procaccia, Marshall Sarnat, Daniel Doron
Chairman, Kenneth J. Bialkin
The Downtown Athletic Club—
November 17, 1986

"Israel cannot survive for long or face its many challenges unless its system permits it to be productive and competitive," said Daniel Doron, executive director of the Israel Center for Social and Economic Progress (which co-hosted the event), in his introduction to a Manhattan Forum on why Israel has failed to develop effective capital markets. The Forum also featured Professors Uriel Procaccia and Marshall Sarnat of Hebrew University and was moderated by Kenneth Bialkin, former national chairman of the Anti-Defamation League of B'nai B'rith. Discussion focused on structural problems in the Israeli economy which impede productivity, investment, and growth and led to a lively critique of Israel's historically socialist economic policies and an exploration of free-market alternatives.

Professor Uriel Procaccia argued that government interference in securities issuance is one of the chief problems of Israeli capital markets. No securities may be publicly issued without authorization from the Finance Minister—and finance ministers "have been, and still are, extremely stingy in making such authorizations." "The primary reason," he noted, "is that the government itself is the largest issuer of securities in Israel." Israel's internal debt of $43 billion overshadows its gross domestic product of $25 billion, and so the government succumbs to the temptation to prohibit private sector competition with the government securities market. This and a host of other hobbling institutional restrictions add up to an economic policy that is "a still-life picture which does not allow for dynamic changes, hampers competition, and bars growth."

Procaccia's suggestions involved loosening regulatory restrictions and a drastic reduction in government spending. Israel's leaders show little inclination to follow this line of thinking, but until they do, he said, Israel will be locked into a self-defeating cycle: "The capital market does not function efficiently for the simplest possible reasons: The government creates barriers to free entry, and entering firms are either taxed or subsidized to such an extent that the entire signalling process, the *sine qua non* of free capital markets, is critically obscured."

Marshall Sarnat focused on the disruptive Israeli bank-stock crisis of 1983 and its implications for capital market development. He quoted Lord Keynes' remark: "When the capital development of a country becomes a byproduct of the activities of a casino, it is likely to be ill-done." Sarnat, professor of finance at Hebrew University, described the Israeli system as dominated by the dual hegemony of government in the bond market and banks in the equity market. He stressed that half of Israel's financial problem stems from widespread government intervention in the capital markets; the other half results from

(Cont. on p. 12)

Civil Justice Project Launched

Nineteen eighty-six witnessed a major expansion of the Manhattan Institute's *Project on Civil Justice Reform*. With conferences and seminars, articles published in major newspapers and magazines, and commissioned books, the project is focusing attention on recent developments in tort law which have fostered a liability crisis.

A principal objective of the Civil Justice Project is to encourage discussion of possible legal or legislative remedies to the tort explosion, bringing together legal theorists, policy analysts, government officials, insurers, journalists, and other interested parties. With increased attention given to the liability crisis at the federal and state levels, the Manhattan Institute has made the project a major priority for 1987.

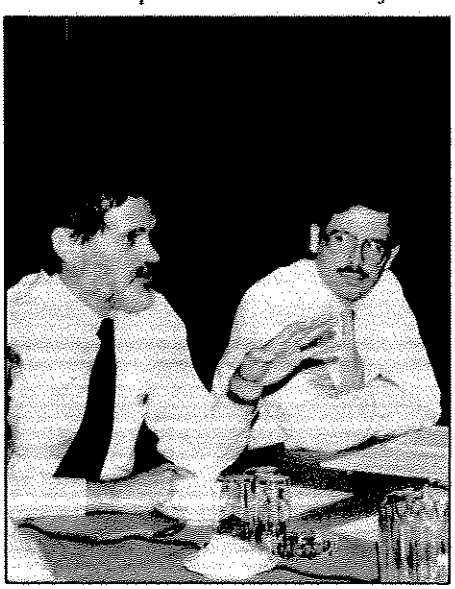
Marvin Kosters, *American Enterprise Institute*, Peter Huber, *Manhattan Institute*, and James Gattuso, *Heritage Foundation*

Walter Olson, a specialist in legal affairs and a former editor of *Regulation*, serves as the project's director. He has been awarded a fellowship to work on a book analyzing the interface between liability and risk, to be published in 1988. (Olson's previous slot as vice president for research has been filled by Larry Mone, formerly editor of the *Manhattan Report*.) Another book for the project is being written by Manhattan Institute Senior Fellow Peter Huber, a Washington attorney who holds a Ph.D. in mechanical engineering from MIT and clerked for U.S. Supreme Court Justice Sandra Day O'Connor. His book, entitled *Behind the Liability Crisis*, will be published early in 1988.

Huber focuses on the development of new doctrines of liability which represent departures from the common law. He shows how these doctrines were supposed to promote justice, fairness, and corporate responsibility but backfired instead, creating trends which, if unchecked, threaten havoc for years to come. He is also examining how tort law works in practice as a deterrent to wrongful or negligent conduct, asking whether the growth of litigation and mushrooming settlements and judgments have eroded the usefulness of the civil justice system. "Everyone in business is terrified of this system," says Huber. "But an efficient deterrent system should be discriminating among the good, the bad, and the ugly."

A highlight of the 1986 Civil Justice Project agenda was a spring Forum, *The Liability Crisis*, featuring Huber, legal philosopher Richard Epstein of the University of Chicago School of Law, and Richard Willard, Assistant Attorney General of the U.S., who heads the Justice Department's Tort Policy Working Group. This event was moderated by *New Republic* editor Michael Kinsley and a transcript was published in the Spring 1986 *Manhattan Report*, along with other material. (Copy available on request.)

Another Civil Justice Project activity is the preparation of articles by project participants on tort reform which have appeared in *Barron's*, *New York Newsday*, the Conference Board's *Across the Board*, *The New Republic*, the *Wall Street Journal*, and other publications. A succinct overview of the problems of the civil justice system was incorporated in Walter Olson's April 28, 1986 *New York Newsday* "Viewpoint."



Edmund Kitch and Walter Olson

Olson's piece, "Passing Blame Can't Unravel Insurance Mess," also criticized the report of the New York State Advisory Commission on Liability Insurance, appointed by Governor Mario Cuomo. The commission's proposals included increased regulation of insurance companies and limitations on liability payouts. Olson's article suggested that the real problem is not skyrocketing insurance premiums, lawyers' excessive contingency fees, or other symptoms of the crisis, but instead a basic shift in legal doctrine which has led judges and juries to look towards "rewarding" those who have suffered physical or financial harm by turning the legal system "into a giant social insurance system."

Olson argued that quick fixes such as insurance-rate or liability-award caps miss the point—true reform, he said, would involve restructuring the system through legislation to "separate the good claimants from the bad." "What is new about the tort crisis is that claims that would have been tossed out of court 30 years ago are now winning millions," wrote Olson. He said that tort reform must focus on ways to keep far-fetched suits from reaching the judgment stage, while preserving the rights of legitimate claimants to redress.

Olson went on to argue that the doctrine of joint-and-several liability has been too liberally interpreted, asking "[S]hould a claimant...be able to sue a party only

Pandora's Docket

Distorted Law Makes All Businessmen Potential Victims of Crime

Walter Olson is a vice president of the Manhattan Institute for Policy Research.

LIKE famine following war, or plague after flood, a locust-like descent of tort lawsuits has become the unfortunate and common aftermath of any catastrophe involving human enterprise. For the owners of the arson-struck Dupont Plaza Hotel in Puerto Rico, this second-stage disaster must loom large and menacing. To settle the lawsuits that followed the 1980 fire at the MGM Grand in Las Vegas, Nev. hotel owners and other defendants paid out an estimated $100-million-$200 million to victims. And as two legal experts told a reporter for The Wall Street Journal, "the biggest difference between the two hotel fires—that the Dupont Plaza fire appears to have been caused by arson—is unlikely to affect any payout."

Under today's liability system, in other words, a hotel that is deliberately torched by criminals may have to pay just as much in tort settlements as one that catches fire through its own negligence. That fact reflects a wider trend that should worry anyone in business today. Deep-pocket defendants are increasingly being held liable for the costs of violent personal crime of all kinds, including muggings, assaults and rapes that victimize customers, employees, visitors and sometimes total strangers:

- Tenants are suing apartment owners after being robbed or assaulted on the premises, while shoppers are suing supermarkets and malls for muggings in parking lots and common areas.
- Rape victims have been allowed to sue the rapists' employers on the theory that the firms were negligent in screening their employees, including a truck driver and a janitor.
- Food and drug companies fear huge damage payouts after the next successful Tylenol-style poisoning or product tampering.
- TWA, to name one airline, has reportedly paid out large sums to passengers after a plane hijacking.
- The government of India is arguing that Union Carbide must pay the full costs of the Bhopal explosion even if the company can prove that the disaster was caused by sabotage.
- Shooting victims have sued the companies that made, imported and sold the weapons used to harm them, and have even gone after private owners whose guns were stolen by burglars and used later in crimes.

* * *

Such lawsuits are relatively new to American courts, which, hewing to principles of individual responsibility, have traditionally refused to mulct A to compensate B for having been assaulted by C. Pandora's docket was not really thrown open until 1970, when the federal appeals court in Washington decided *Kline v. 1500 Massachusetts Ave. Apartment Corp.*, a case where a tenant had been assaulted in a building corridor. As so often in the liability revolution, the judges reworked and stretched age-old legal precepts to achieve their novel findings. For example, one old exception to the general rule required landlords to protect their guests against "foreseeable" crimes, a doctrine that previously applied to such cases as those where the owner sighted a prowler but negligently failed to raise an alarm. The *Kline* court's elegant solution was to proclaim that since the press had widely reported an upsurge in the crime rate, any and all muggings in the building should be "foreseeable."

Similarly, the court made a gesture toward traditional contract law by declaring that Ms. Kline's landlord had broken an implicit contract with her by reducing guard services; even though she was on month-to-month occupancy, guard services were nowhere promised in her original lease, and it is not clear that a court would have given effect to an explicit waiver of her rights to be guarded even if she had signed one.

Negligent-security suits presume that a firm should do more to protect its guests: put in more locks and checkpoints, more lights and mirrors more security guards and doormen; conduct more employee background checks; bounce troublemakers more promptly before they start a fight at the bar. The problem is that there is no limit to the possible precautions a business might have taken, and courts never seem to make clear how much is enough.

Clearly it is not enough just to make a building's public areas as safe as nearby city streets, a disparity which suggests that the judicial branch of government is demanding a degree of security that the executive branch cannot meet. Nor is it enough to match the security precautions customers take in their own homes—which suggests that business will sometimes wind up providing security features that its customers will be unwilling to pay for. Nor is it all right just to follow prevailing industry practice, since the Dupont Plaza owners are under attack for many aspects of design and construction that are standard hotel practice on the U.S. mainland as well as Puerto Rico.

The law has always recognized some obligations to protect others against crime, but of a type limited enough to be workable. Naturally a business is liable if it misleads its guests by inviting them to rely on locks or safe-deposit boxes that it knows aren't really secure. Such enterprises as asylums and schools (and, by extension, railroads and bus operators) must mind the safety of persons they take into physical custody. Innkeepers have also been held to a higher standard than most businesses, partly because of lingering outrage over old English cases where knavish hosts conspired with highwaymen to rob guests and split the loot. And under the modern doctrine of "vicarious liability," firms must answer for criminal acts that their employees commit during their employment.

The newer trends are based on rationales that are much more far-ranging. Making business pay the costs of violent crime is good social policy, runs one argument, because it spreads the cost of crime thinly among consumers at large in the form of higher product prices. Indeed, some advocates see business crime liability as a makeshift way station on the road to governmental crime-compensation and health-insurance schemes.

Other commentators suggest that business itself shares some guilt for the depredations of criminals. Cornell professor Fred Zacharias argues that in cases like *Kline*, the "landlord is 'blameworthy.' It encourages tenants . . . to live in a crime-ridden area and expose themselves to injury." In a recent article in the Yale Law Journal, he proposes that courts extend the theory to even more kinds of crime, by, for example, holding banks liable for muggings at 24-hour automatic-teller windows.

One predictable effect is to make it costlier for business to operate in hazardous areas and at hazardous times. Banks will start shutting automatic teller machines at night, doing away with their most attractive feature. Other merchants will raise prices, and many chain stores, which open themselves to political attack if they charge more in some neighborhoods than others, will simply shun inner-city areas, leaving them with even fewer shopping outlets than they have now.

There is another effect that is less tangible: The quality of mercy will become more strained. Many of us might privately admire the soft-hearted employer who gives an ex-con a second chance or tries to reason with a drunken patron. But the current state of the law punishes him for making his premises a soft target.

The objections to negligent-security doctrine are moral as well as practical. When we make business more responsible for crime, we make criminals less responsible. It can safely be predicted that more time, money, and legal-investigative talent will be spent to go after the hotel owners in the Puerto Rican case than to go after the arsonists, simply because the hotel owners are the ones with money. Yet the arson itself is not without policy significance. Three union members have been indicted so far, and police spokesmen say they expect more indictments to follow.

Officials of the Teamster local insist the conspiracy went no higher up than the rank and file, a claim that has been reported at face value by many news outlets that are normally suspicious of denials of responsibility by official hierarchies. To be sure, eyebrows were raised when it was revealed that the union's negotiator, Jorge Farinacci, is out on bail on charges of taking part in the armed robbery by a Puerto Rican terrorist group of a Wells Fargo depot in Connecticut. Union spokesmen defend their choice of Mr. Farinacci with the explanation that he is one of the leading labor lawyers in Puerto Rico, as if this were supposed to be reassuring.

It is lucky for the Teamsters, by the way, that the concept of "vicarious liability" that is applied so rigorously to business is not extended to unions. If a company man collecting a debt beats someone up, the law automatically makes his employer liable, even if none of the higher-ups told him to do so. If a union man on a picket line beats someone up, the law assumes he did it on his own authority, no matter how conveniently the beating happens to serve the union's interests.

For years businesses have been complaining that local police fail to protect them adequately from labor violence. Republican Sen. Orrin Hatch of Utah and others have responded by proposing legislation that would make certain acts of labor violence a federal crime. But the bill has been bottled up for years by pro-union legislators; last year it was reportedly blocked on the Senate floor by Sens. John Heinz and Arlen Specter, both Republicans of Pennsylvania. Proposals to nationalize any area of criminal law should always be viewed skeptically, but the case for federal intervention is strongest where there is evidence that local officials are cowed by the wrongdoers or ideologically sympathetic to them, as has often been the case with lynchings and other racial violence.

* * *

In a sane world, the Dupont Plaza outrage might kindle a national debate about whether to unblock the Hatch bill. But by turning the anger of bereaved families against the target of the attack, and away from its perpetrators, the liability revolution helps blunt any effective movement to keep such crimes from happening again. If anything, the lawsuits worsen the danger of future violence. The San Juan arson attack was aimed specifically at one business, but it also has the effect of terrorizing managements elsewhere that might be thinking of resisting union demands. If overly broad liability succeeds in ruining the hotel owners where arson failed, the threat of labor violence will be far more powerful. That would hand the arsonists a double victory that society can ill afford.

—Walter Olson

BARRON'S

EDITORIAL COMMENTARY

Feb. 16, 1987

Gordon Crovitz, Peter Huber and Walter Olson

partly to blame for an injury, but well insured, for the full amount of damages, as when the victim of an accident in which street signs are slightly at fault sues the city for his entire claim?" Calling the tort explosion "a crisis not of interest groups, but of ideas," he emphasized that rather than searching for "culprits," all parties should be working together to reverse harmful trends in legal doctrine.

These and other themes were also aired at a June 30 Washington seminar lunch, where Olson, Huber, and Gordon Crovitz of the *Wall Street Journal* led a roundtable discussion with 30 policy analysts and representatives of corporations and insurers. The panelists debated a number of approaches to tort reform, critiquing proposed Congressional legislation. As Huber noted, "There are three choices. There is the quick fix. And then the two other alternatives—which are slow fixes—are to go backwards" towards earlier standards of liability, "and to go forwards" to implement long-term reforms at the national level.

The panelists agreed that large judgments for plaintiffs in liability cases have become so newsworthy that public attention has been focused on the problem. This widespread awareness, it was argued, could serve as the moving force of reform. Panelists then explored possible strategies for further mobilization of such support, reflecting the belief that, as Crovitz put it, "Tort reform is too important to be left to the judges and the lawyers."

Federalism and Liability, a daylong workshop, was held at the New York Athletic Club on July 14, 1986. Fifteen legal scholars from universities and think tanks discussed the problem of overly broad liability laws at the state level, focusing on the phenomenon of "forum-shopping," in which plaintiffs sue in the state with the most generous judges, juries, and legal doctrines.

Edmund Kitch of the University of Virginia Law School, George Priest of the Yale Law School, Marvin Kosters of the American Enterprise Institute, James Gattuso of the Heritage Foundation, and Michael McConnell of the University of Chicago Law School joined with Crovitz, Huber, Olson, and others in vigorously debating the economic consequences of current trends in tort law. New liability standards in a number of states, it was argued, drive up the cost of products nationwide and, in some cases, lead to the actual removal of products from the market.

Moreover, the radically divergent verdicts reached by state courts make it hard to approach tort issues with any consistency. Prospects for standardization were debated: Should there be national rules to prevent the unfairness resulting from such forum-shopping? For which areas of tort law? Through the federal courts, or through legislation? These questions became the basis for an exploration of how such a national rule system might be crafted and whether it would be constitutional.

Although divided over whether to pursue federal standardization of product liability laws, panelists agreed that current trends, continued unchecked, could force the abandonment of entire product categories. Private airplanes, vaccines, and intrauterine contraceptive devices were mentioned as examples where this is already occurring. The proliferation of harmful tort law developments among the states, it was agreed, might precipitate what Michael McConnell termed a "race to the bottom." Said McConnell, "It only takes a few states with bad rules to create a national system of bad rules."

Apropos the 1987 bicentennial of the U.S. Constitution, the Civil Justice Project has several major events on the agenda for this year focusing on the conceptual bases of the modern civil justice system. This fall, the Manhattan Institute will co-sponsor a conference with the Academy of Political Science on the liability revolution, with the proceedings to be published as a special issue of the *Political Science Quarterly.*

Another conference, a two-day event to be co-sponsored with the Indianapolis-based Liberty Fund, to outline the historical development of liability doctrine, is scheduled for early 1988. Finally, a Philadelphia meeting to focus on the roots of American jurisprudence is being planned. Co-sponsor for this event will be the Mentor Group, a transatlantic organization dedicated to exploring the contributions of the Scottish Enlightenment to Western political thought and institutions.

Analyzing proposed legislative remedies will remain a major concern for the project. "Getting the public's attention focused on the litigation crisis is just a first step," says Walter Olson. "Liability law is a minefield of unintended consequences, and if we don't want to risk making things even worse we have to think hard before we legislate."

Periodic updates on the work of the Project on Civil Justice Reform, along with notice of upcoming events, will continue to be sent to interested individuals. Those desiring to be placed on the Civil Justice Project mailing list are invited to write to the Manhattan Institute and request that their names be added. (Article reprints and transcripts of Forums and seminars held by the project are available at no charge to Associates of the Manhattan Institute.) □

Institute Welcomes New Trustees

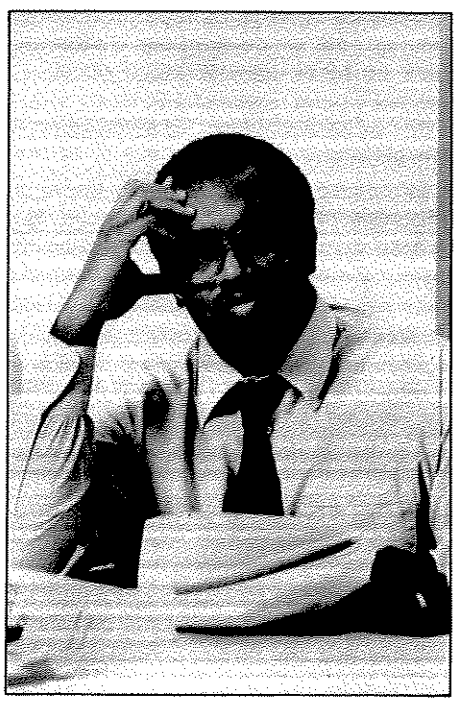
The Manhattan Institute welcomed five new trustees to its board during 1986: Richard Gilder Jr., Roger C. Hertog, Edwin P. Hoffman, Glenn C. Loury, and Robert W. Wilson.

Richard Gilder was elected board vice chairman. He is founder of Gilder, Gagnon & Co., an investment firm. Gilder is also a trustee of the Central Park Conservancy and the International Center for the Disabled. Another of his interests is the Political Club for Growth, an organization which brings growth-oriented politicians together with business leaders.

Glenn Loury is Professor of Political Economy at the Kennedy School of Government of Harvard University. With James Q. Wilson, he co-edited *From Children to Citizens: Families, Schools, and Delinquency Prevention*. His book *Free at Last? Racial Advocacy in the Post-Civil Rights Era* is forthcoming from The Free Press in the fall.

Ed Hoffman is Group Executive of Citibank, with responsibility for institutional banking in the Caribbean, Central America, and South America. A Citibank executive since 1969, Hoffman serves on the policy and finance committees of Citicorp. A graduate of Muhlenberg College, he earned master's and doctoral degrees in molecular biophysics from Yale.

With a reputation as one of Wall Street's most astute investors, Robert Wilson now combines membership on the Manhattan Institute board with his chairmanship of the New York City Opera, a position he has held since 1981. He is also a trustee of the Environmental Defense Fund.



Glenn Loury

Roger Hertog is Executive Vice President of Sanford C. Bernstein & Company, with supervisory responsibility for all asset management and institutional sales and marketing activities. Starting as a securities analyst in 1961 with Oppenheimer & Co., he moved to Sanford Bernstein in 1968. Hertog is a graduate of the City College of New York. □

Manhattan Institute trustees Walter Wriston and Richard Gilder

Neil McLeod Honored At June Gathering

To mark the retirement of A. Neil McLeod, president of the Liberty Fund, the Manhattan Institute sponsored a roundtable seminar and dinner in New York on June 9, 1986. Noted public-choice economist James Buchanan introduced the seminar's theme of "Liberty, Ideas, and Public Policy." The commemoration of McLeod's work at the Liberty Fund was a means of honoring him for his role in the development of ideas through his leadership of the Indianapolis-based foundation.

Neil McLeod joined the Liberty Fund in 1974. Holder of a Ph.D. in economics from Cornell and an M.B.A. from Harvard Business School, he remains active in intellectual affairs through his role as consultant to several institutes, including the Fraser Institute in British Columbia, where he and his wife now live.

Buchanan discussed liberty both as a concept and within its historical context. This topic was taken up by 30 discussants, many of whom had participated in Liberty Fund events arranged by McLeod during his tenure.

The Liberty Fund was founded in 1960 by Indiana businessman Pierre Goodrich (1894-1973) to encourage study of the ideal of a society of free and responsible individuals. Among its activities are the sponsorship of the prestigious Socratic Seminars and two imprints: Liberty*Classics*, which republishes and markets new editions of landmark books; and Liberty*Press*, publishing more recent works.

The Manhattan Institute cooperated with the Liberty Fund in holding several events while McLeod was president. A Liberty Fund colloquium on the direction of American social policy, organized by Charles Murray, was held in New York in October 1984, coincident with the publication of Murray's *Losing Ground*.

In March 1986, a Liberty Fund colloquium on competitive monetary regimes, organized by Manhattan Institute Senior Fellow David Glasner, brought together 20 scholars and financial experts from the U.S., France, and the U.K. to discuss the banking system and prospects for monetary reform. Another, a two-day event focusing on the liability crisis to be held this fall, is being organized by Walter Olson. □

Forums (Cont. from p. 7)

Roger Starr, *The New York Times*, and Alston Chase, author of *Playing God in Yellowstone*

Israeli banks' lockout of competing financial services firms.

Sarnat's prescription for financial health involved enforcement of existing securities laws—bans on insider trading and stock manipulation, along with full-disclosure requirements—rather than new laws. Sarnat, like Procaccia, concluded with a call for removal of barriers to free entry and competition: "Government's intervention in the capital markets has been a failure even by the bureaucrats' own standards. It's time to remove the shackles and give free-market forces a chance to operate."

How NATO Weakens the West
Melvyn Krauss
Chairman, William Hammett
The Lotos Club—November 12, 1986

Professor of international economics at New York University and fellow of the Hoover Institution, and known for his books on trade policy and foreign aid, Melvyn Krauss has turned his attention to whether American involvement in NATO effectively promotes the security of the U.S. and of its allies.

Discussing his latest book, *How NATO Weakens the West* (Simon & Schuster, 1986), Krauss argued that the U.S., through its large contribution to the NATO defense structure, subsidizes European defense "free riders." Worse, he said, U.S. funding of NATO allows Europe to subsidize the Soviet economy through a "defense feedback" effect. Krauss said, "NATO was formed to make weak allies strong. In my view, it has done the opposite: It has made potentially strong allies weak."

Krauss's solution to the problem of NATO is phased withdrawal of U.S. troops from Europe (along with a U.S. ground force pullout from Korea). He does not view this as an isolationist policy, arguing that remaining in NATO would insure that U.S. foreign policy increasingly will be dominated by what he calls the "moral isolationist" view—to the detriment of the unilateral internationalism which he believes is the optimal course for American foreign policy.

Besides, argued Krauss, we spend well over $100 billion a year honoring our NATO commitments in Europe and could certainly find other uses for this money. And if the Europeans (and our Pacific allies) were to assume a greater share of the cost of their own defense, he said, the enervating effects of dependency on the U.S. would disappear—a development which might make them warier of their growing economic dependence on the USSR.

"NATO was formed to make weak allies strong. In my view, it has done the opposite: It has made potentially strong allies weak."

—Melvyn Krauss

Moral Literacy and the Formation of Character
William J. Bennett
Chairman, Robert F. Wagner, Jr.
The Harvard Club—October 30, 1986

Last fall, U.S. Education Secretary William Bennett called for the teaching of moral values in U.S. schools in a Manhattan Forum speech to 150 educators, journalists, and other guests at the Harvard Club. Bennett's strong support of the concept of "moral literacy" led William Raspberry to base a *Washington Post* column on Bennett's Forum address: "[Bennett's] idea is so solid that it's hard to imagine that it should be controversial. We may not want our public schools to get into the business of religious or political indoctrination, but we do want our children to grow up to be literate, moral adults.... Bennett's point, unassailable in my view, is that we cannot expect that to happen in a cultural and moral vacuum."

Introduced by New York City Board of Education President Robert Wagner, Jr., Bennett argued that there is a consensus among Americans on certain character traits linked to moral conduct—all based on standard notions of decency and a willingness to differentiate between right and wrong. It's not easy to teach "values" to schoolchildren, he admitted—but he said that it can be done, and it has been done throughout most of American history. He criticized the education establishment's support for "value-free" curricula (what some have disingenuously called "values clarification") as representing a renunciation of the schools' traditional character-building role. He further argued that edu-

(Cont. on p. 14)

Leading Intellectual Indicators...

"I'm pessimistic about workfare because I was an evaluator of social programs. That's the way I made my living for about 15 years—including evaluating many programs that are structurally the same as workfare. What happens is this: In the first place, it is very hard to produce jobs that are meaningful, that require people to work, unless there is somebody who really needs that work done. Creating jobs is simply very, very tough. If you don't have a reason to get that work done, the job probably will be one in which people show up and sit around. A second thing, even more damaging, that happens is that you have to have exceptions. Exceptions so that if you are a mother with a child under the age of six, or under the age of three or whatever, then you don't have to do it. These exceptions start out being fairly small and strictly enforced. They quickly become much more elaborate and much more loosely enforced and what happens then is what happened in the CETA jobs program, which is the setting up of a game which anybody with a little moxie and pride can beat."

—Charles Murray
Manhattan Forum
December 4, 1986

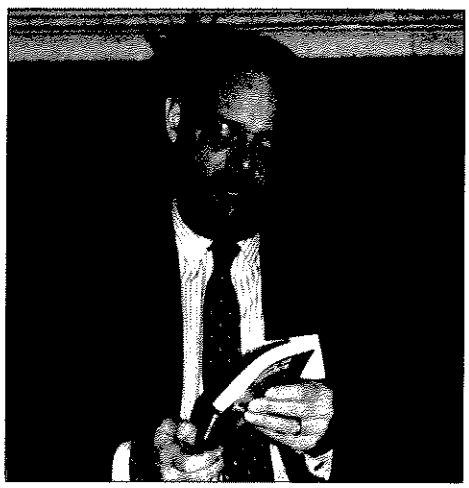
"From George Orwell to John Kenneth Galbraith to Jean-Jacques Servan-Schreiber, the general conviction has always been that technology favored the state over the individual and that we were moving toward 1984 and the triumph of Big Brother. And 1984 did come, but there was no Big Brother. On the contrary, in the United States we experienced the fastest growth of small businesses in the history of the country—a massive surge of growth on the frontiers of high technology.

"The real promise of supply-side economics in the long term is the triumph of the individual entrepreneur. The state has no role in the new global economy. It is completely impotent and at bay in confronting the proliferating opportunities found in the new information technology."

—George Gilder
London Conference on Taxes and Growth
October 14, 1986

"High marginal tax rates no longer affect just the wealthy. In the 1970s, inflation pushed ordinary working couples into tax brackets once reserved for the very affluent. This happened in both Europe and the United States. It actually increased the progressivity of the tax code. I call this 'greasing the rungs on the ladder of opportunity.' These steep marginal tax rates did succeed in what they were intended to do. They succeeded in preventing people from earning high incomes. The result was that the tax burden had to be shifted down to lower incomes."

—Alan Reynolds
London Conference on Taxes and Growth
October 14, 1986



Donald McCloskey

"I am not talking about browbeating students into accepting points of view. That is simply hard indoctrination, which we all deplore. Nor am I talking about moralism. I am talking about ethical candor. To put students in the presence of a morally mature adult who speaks honestly and candidly to them is not to violate their rights. On the contrary, it is essential to students' moral growth. And it seems to me that this is why many teachers entered the profession in the first place—because they thought they could make a positive difference in the lives of their students, in the development of their character, to make them better as men and women, as well as to help develop their skills."

—William Bennett
Manhattan Forum
October 30, 1986

"An economic argument should be examined in the way an English professor examines a piece of poetry, to see how it achieves its results. For example, we're arguing about free trade and protection. One side sees trade as mutually advantageous and the other sees it as a zero-sum game. It seems that the main disagreement here is about this metaphor. If you think of our trade with Japan as a football game in which Japanese yardage is acquired at our expense, you have one attitude towards free trade. On the other hand, if you think the more appropriate metaphor is small boys exchanging baseball cards for jack knives, then you have an entirely different view. I think economists and the users of economic thought are unconsciously yet strongly affected by the metaphors that come along with economics."

—Donald McCloskey
Manhattan Forum
January 20, 1987

"The electronic linkage of the world is changing, in a fundamental way, our economic and political reality.

"We witnessed the fall of Mr. Marcos after he announced that he had won the election. Ten years ago he won an election and was still there. What changed was that the cameras went into the barrios and the world got a sense that he was crooked. Despite the fact that he controlled the army, the political machinery, and the assembly, he was forced to leave. This is a brand new situation in the world.

"This new technology is on the side of freedom. Marcos is only one example. We have five new democracies in Latin America. That didn't happen except for the fact that there are satellites pumping out information. Eighty percent of the news that's received in the Third World comes from hand-held transistor radios. National censorship is becoming irrelevant. As Barbara Tuchman noted, revolutions in rising expectations only occur when people know there is an alternative. The electronic age brings people images of that alternative."

—Walter Wriston
Manhattan Forum
March 19, 1986

Forums (Cont. from p. 12)

cators can best teach moral values by example: "We must have teachers and principals who not only state the difference between right and wrong, but who make an effort to live that difference in front of students. In this business of character, there has never been anything as important as the quiet power of example."

Bennett advocated an approach based on instructive examples from classic literature, instead of courses in abstract "moral reasoning." Teaching values through stories of American heroes such as George Washington and Martin Luther King, Jr., and through Biblical tales, would realize an additional benefit of grounding schoolchildren in common cultural traditions. "Our literature and history are a rich quarry of moral literacy," he said. "We should mine that quarry.... These stories can help anchor our children in their culture, its history and its traditions. They give children a mooring. This is necessary, because individual morality, of course, is inextricably bound to the conscience and morality of society. Our traditions are a source of knowing the ideals by which we wish to live our lives."

The Future of Our National Parks
Alston Chase
Chairman, Roger Starr
The Harvard Club—May 16, 1986

Yellowstone, America's first national park, was set aside by Congress in 1872 to perpetuate America's natural heritage for future generations. It was to be a repository of "primeval" Western flora and fauna. Yet today, environmentalist Alston Chase argued at a spring Forum, this treasure is being systematically destroyed by the very institution dedicated to protecting it—the National Park Service. Faulty implementation of the principles of "ecosystems management" has led to a Yellowstone Park where several animal species are extinct or nearing extinction, park rangers are dispirited and deprofessionalized, and campers are eaten by starving grizzly bears.

In this Forum, chaired by *New York Times* editorial board member Roger Starr, Chase discussed his book *Playing God in Yellowstone: The Destruction of America's First National Park* (Atlantic Monthly Press, 1986), which has been furiously attacked by the Park Service and mainline environmental groups. Chase, founder of the Northern Rockies Association and former chairman of the Yellowstone Library and Museum Association, described the book as the result of exhaustive interviews with a wide range of park personnel and wildlife experts.

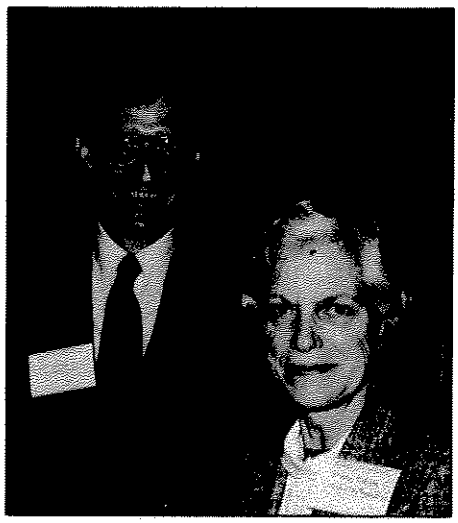
Not only have Park Service rangers presided over the elimination of the Rocky Mountain gray wolf from the park, he said, there is evidence that the Park Service has tried to cover up their demise by secretly releasing imported wolves into the park and falsifying records to reflect (bogus) wolf sightings from 1930 to 1968. He also described in detail what has happened to the grizzly bear at Yellowstone—trapped and shot in the name of "ecosystems management," the bears have attacked humans in desperation after their main food sources, trash dumpsters, were removed.

Chase blamed these mistakes on the Park Service and environmentalists' misinterpretation of a mandate to preserve the park as a "natural" habitat—a misunderstanding which underlies all the mistakes made in Yellowstone since the environmental movement took hold. "Because of this confusion over the meaning of the word 'natural,' the environmental community has tended to suppose simplistically that the solution is keeping all human beings away from wildlife—when in fact the solution is more complicated." A first step towards solving the problems which plague Yellowstone, he said, is for the Park Service and mainstream environmental groups to start telling the truth and admit that their approach to wildlife management has not worked.

Risk and Other Four-Letter Words
Walter B. Wriston
Chairman, Peter G. Peterson
The Harvard Club—March 19, 1986

"A passionate book about the virtues of freedom," was former U.S. Commerce Secretary Peter G. Peterson's description of Walter B. Wriston's *Risk and Other Four-Letter Words* (Harper & Row, 1986) in his introduction of Wriston at a Forum lunch at the Harvard Club honoring the former Citicorp chairman.

Peterson also read a congratulatory letter from President Reagan: "I agree with you that uncertainty should be a goad, an invitation to innovation. Risk-taking is not only the American way, it is largely



John Craig, *The Commonwealth Fund,* and Mary Strong, *Schultz Foundation*

responsible for the rapid progress this country made from the very beginning." Wriston's remarks represented an effort to explain some important contemporary developments on the world political and financial scenes which make it imperative that Americans continue to be able to take risks in an environment of maximum intellectual and regulatory freedom.

In his talk, Wriston said, "The electronic linkage of the world is changing, in a fundamental way, our economic and political reality." What will this bring about? A lessening of the power of restrictive governments, "central banks of the world ... losing their clout," and overall, "an information standard which is more draconian than the gold standard it has replaced."

"Governments used to be able to get away with bad monetary or fiscal policies," he argued. "Through a variety of devices and regulations, governments were once able to control what people thought about their currencies. But now every day, 24 hours a day, there are thousands of people making judgments about currencies around the world." Wriston said that the effects of the new technologies, such as dramatically faster capital flows, augur ill for economically reactionary governments, and indeed, for anyone who fails to take this new financial structure into account. Wriston was sanguine about the implications of the information standard: "The new electronic global infrastructure is profoundly, positively affecting the politics of the world. It is spreading the concept of human freedom around the world." □

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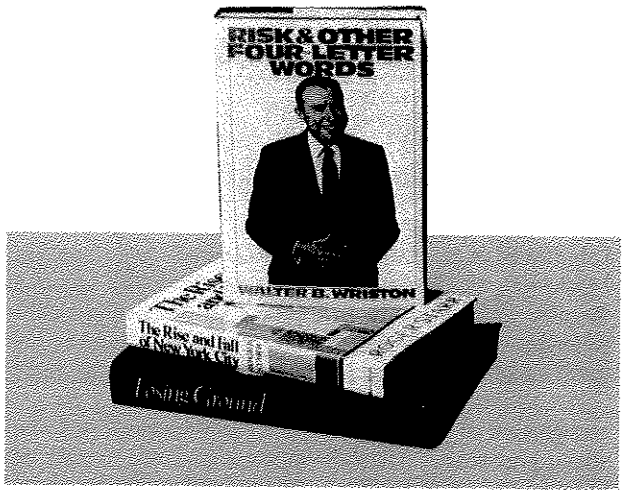

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	The Rise and Fall of New York City by Roger Starr *Basic Books, 1985* **SPECIAL PRICE:**	$17.95	**$ 7.50**	
	Losing Ground: American Social Policy 1950-1980 by Charles Murray *Basic Books, 1984* Cloth: Paper:	$23.95 $10.95	**$18.95** **$ 8.75**	
	The Rhetoric of Economics by Donald N. McCloskey *University of Wisconsin Press, 1985* Cloth: Paper:	$21.50 $12.95	**$17.00** **$10.25**	
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☐ **I am already a Manhattan Institute Associate.**

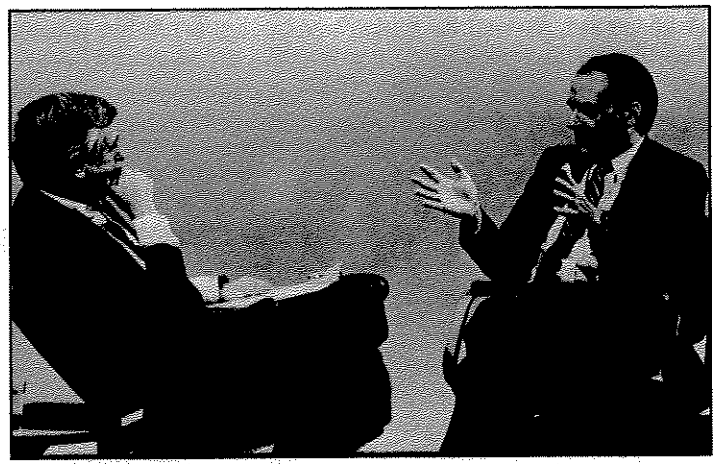
Charles Murray Named Bradley Fellow

Charles Murray, author of *Losing Ground: American Social Policy 1950-1980,* has been awarded a grant from the Lynde and Harry Bradley Foundation of Milwaukee to support completion of his followup work to *Losing Ground* which is entitled *In Pursuit.* The grant makes Murray the Manhattan Institute's first Bradley Fellow.

An official of the Bradley Foundation said that the grant was in recognition of Murray's "capacity to illuminate and clarify major social problems." His current work expands themes which were touched on in his 1984 book. Critical and public response to *Losing Ground* has been phenomenal and the many speaking requests and related writing opportunities Murray has undertaken—among them an appearance on the Phil Donahue Show, debating Jesse Jackson in a *Harper's* symposium, and articles for *The Public Interest, The New Republic,* and a host of other publications—have made serious demands on his time. Murray views the grant as a significant help in freeing him to put the final touches on the manuscript of *In Pursuit* to facilitate publication by Simon & Schuster later this year.

In Pursuit, says Murray, is intended to explore "the framework for thinking about how social policy and happiness interact." Central to the book's premise, he says, is the idea that "the purpose of social policy and the reform thereof is not just to tinker with procedures. Ultimately, the laws and programs are supposed to 'do good' in the sense of increasing the net happiness of society's citizens." In the past, argues Murray, "social scientists have been helpless to explore systematically the effects of social policy on this ultimate purpose—*In Pursuit* may make us a little less helpless."

Keeping the rigorous and fact-laden style which made *Losing Ground* distinctive, Murray's new book will transcend the world of quantitative measurements of the results of social programs to delve to the heart of the policy debate: the question of whether these programs have made life "better" for members of the society as a whole. It will also analyze the nebulous region of social science known as "QOL"—quality of life. In the process several fundamental questions are asked—and answered: What is the relationship of economics to happiness? Can there be any circumstances in which money can buy happiness? Finally, what are the tangible, and measurable, benefits of intangible goods such as "knowledge" or "freedom"? □



William F. Buckley, Jr. and Charles Murray on *Firing Line*

Chase Funds '87 Forums

The Manhattan Institute's Forums program, an effort to bring current thinking on public affairs before the New York opinion community, has received a major grant from the Chase Manhattan Bank to fund the 1987 Forums series. Now in its seventh year, the program of conferences and luncheon seminars has become an influential and respected arena for critical examination of new ideas in economics and public policy. More than 60 of these gatherings have been held since November 1980 when George Gilder inaugurated the series with a discussion of his book *Wealth and Poverty.*

Chase's generous funding allows the Forums to be held more frequently, with a significant expansion of the number of invited guests, and it permits wider dissemination of Forum proceedings. Attendance at recent Forums has ranged from 35 to 150 selected journalists, government officials, business leaders, foundation staffers, and academics. □

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